SUGAR AND THE TARIFF

by

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INTRODUCTION

THE tariff bill now before Congress proposes to increase the effective duty on sugar to 2.40 cents a pound. This proposal is part of a plan to help agriculture in the United States. It also involves our relations with the Philippines and Cuba, if not with the general problem of foreign trade. The United States consumes annually about 6,000,000 tons of sugar, nearly half of which comes from sugar cane produced in Cuba, which pays a duty of 1.76 cents a pound upon entering the United States; approximately 20 per cent comes from the beet sugar produced in about eighteen states in the Union and from the sugar cane produced in the southern United States, while the remainder, or about 32 per cent, is imported free of duty from Porto Rico, Hawaii and the Philippines. In value sugar is our fourth largest import. The duties on it constitute about one-quarter of our customs.

There are at least three interests involved in the proposal to increase the tariff on sugar:

1. The American beet- and cane-sugar producers who are anxious to increase the consumption in the United States of American sugar, at the expense of sugar from Cuba and the Philippines, and therefore favor an increase in duty.

2. The producers, many of whom are Americans, in the insular territories of the United States who wish to see the continuance of free trade with continental United States, and who are opposed to a reduction of the duty on foreign sugar.

3. The Cuban producers, many of whom are Americans, the American sugar-refiner, and the American consumer generally, all of whom are opposed to an increase in the sugar duty.

The first source of sugar is sugar cane. The *centrales* of Cuba and Porto Rico usually grow their own cane or purchase it from sugar-cane growers (*cólonos*). The majority of the *centrales* sell their raw sugar to refineries located along the eastern seaboard of the United States.

THE BEET-SUGAR INDUSTRY

The second source of sugar is the sugar beet. Although beet sugar is produced in about eighteen states, the most important centers of production are Michigan, Colorado, Nebraska, California and Utah. It is estimated that from 75,000 to 100,000 persons are engaged in this industry, and that there are about 102 sugar factories in the United States. Virtually all sugar-beet seed is imported from Europe because of the difficult and costly process of growing such seed in the United States. Beets are usually grown by independent farmers, for as a rule the beet-sugar refining companies do not grow the raw product themselves. Before the seed is planted, the farmer makes a contract with a company providing for the purchase of his beets at a certain minimum price. In addition, he is usually paid a bonus if the price of sugar goes beyond a certain figure.[1] Much of the work in connection with sugar-beet production is seasonal, and it is customary for the farmer to hire labor on contract for the purpose of blocking, thinning, hoeing and harvesting. It seems that a large part of this contract work is provided by foreign and child labor.[2] In 1927 the Bureau of Labor Statistics of the United States

1. In 1928 the Great Western Sugar Company paid the farmer, as an initial payment, $1.00 a ton less than in previous years. Cf. *Annual Report*, February 28, 1929.

2. The social conditions in the cane-sugar industry in Porto Rico and Cuba have been described elsewhere. Cf. "The Problem of Porto Rico." F. P. A. *Information Service*, Vol. IV, No. 23, p. 449, and p. 116 of this report.

Department of Labor reported that "Mexicans are largely replacing the Belgians and German-Russians formerly used as laborers in the sugar-beet fields of Ohio, Michigan, Iowa, Minnesota, and North Dakota, and now comprise from 75 to 90 per cent of this class of agricultural workers." The Mexican is usually helped by his "wife and children, and lacking sufficient children, he assumes guardianship of other children," who are usually related to him.[3]

In 1923 the United States Children's Bureau published a report which showed that of the families studied 67 per cent of the children between six and sixteen, and nearly all of the mothers worked in the sugar-beet fields of Michigan.[4]

In the same year the National Child Labor Committee made a report of conditions in Michigan. It declared that nearly 74 per cent of the children of the families studied worked in beets—usually from eight to twelve hours a day, and in some cases from twelve to sixteen hours a day.[5] In 1925 the same organization made a study of child labor in the sugar-beet fields of Colorado. Of all the workers required to do handwork on 16,707 acres of sugar beets, 49 per cent were children under sixteen years and 10 per cent were under ten years. The working-day during "thinning" in some cases averaged as high as thirteen hours and six minutes. The children belonged to families of Russian, German and Mexican nationality, who had contracted to work the beets.[6]

According to a recent study of the Institute of Government Research, Indian school children as young as eleven years of age have been sent to the beet fields of Colorado and Kansas. The report declares, "Even had all possible precaution been taken to safeguard their health and welfare, the taking of such young children hundreds of miles from home to live in camps and engage in field labor cannot be defended."[7]

It should, however, be pointed out that child labor exists in other forms of agriculture within the United States.[7a]

The most important beet-sugar company in the United States is the Great Western Sugar Company which produces about 48 per cent of the total beet-sugar production. In its annual report of February 1929, the Great Western Sugar Company showed a dividend last year of $6,090,000. The net income, after deductions had been made for depreciation, taxes and interest, amounted to $7,785,699.98. The Great Western Sugar Company has paid annual dividends of 7 per cent on its preferred stock and $2.80 upon its common stock of no par value. The latter dividend amounts to 33.6 per cent.[8] The company asserts, however, that it is under-capitalized, and that, taking the last three years into account, the average earning on net assets is only 7.48 per cent.

Other beet-sugar companies, such as the American Beet Sugar Company and the Holly Sugar Corporation, are not so prosperous. The former earned 0.76 per cent per share of common stock in 1927, while the latter earned 7.25 per cent.[9] Neither company paid dividends on common stock last year. In fact, according to the American Beet Sugar Association the average net losses of the beet-sugar companies, exclusive of the Great Western Sugar Company, have exceeded $2,500,000 during the last three years.

In 1919 a Farmers' Union, a cooperative enterprise of beet-growers, attempted to build a sugar-beet factory. Although the Great Western Sugar Company had previously declined to construct a factory in this vicinity, it proceeded to do so in order to forestall the plans of the Farmers' Union. Believing that the company would now pro-

3. *United States Daily*, July 23, 1927, p. 5, col. 2.

4. *Child Labor and the Work of Mothers in the Beet Fields of Colorado and Michigan*, Children's Bureau Publication 115, 1923, p. 85, 107.

5. Armentrout, Brown, Gibbons, *Child Labor in the Sugar Beet Fields of Michigan.* National Child Labor Committee, New York, 1923. A committee of the Michigan legislature "censured" the committee's report. *Report of the Legislative Committee, Appointed by the Michigan Legislature*, 1923 session.

6. Sara A. Brown, *Children Working in the Sugar Beet Fields of Certain Districts of the South Platte Valley, Colorado.* National Child Labor Committee, 1925. Cf. also Coen, etc., *Children Working on Farms in Certain Sections of Northern Colorado.* Colorado Agricultural College Bulletin, November 1926.

7. Lewis Meriam, *The Problem of Indian Administration*, 1928, p. 390, 524.

7a. *Children in Agriculture*, Children's Bureau Publication 187, 1929.

8. On July 8, 1927 the company issued 1,800,000 shares of no par value common stock in exchange for 600,000 shares of $25 par value stock. Thus a holder of a share of the old stock received three shares of the new; he therefore receives an annual dividend of $8.40 upon a capital sum of $25. Farr, *Manual of Sugar Companies*, p. 31.

9. *Tariff Readjustment, 1929.* Hearings before the Committee on Ways and Means, House of Representatives, 70th Congress, 2nd Session, No. 13, January 21, 1929, p. 2351.

vide the desired facilities, the Farmers' Union stopped construction, whereupon it is charged the sugar company abandoned its project. Citing other instances where the Great Western Sugar Company was alleged to have engaged in questionable practices, a United States attorney on February 6, 1929 filed an information in the United States District Court of Nebraska, charging the Great Western Sugar Company with conspiracy to restrain interstate commerce.[10]

THE SUGAR TARIFF

It has been the policy of the United States in every tariff act since 1789 to grant protection to the sugar industry.[11] The act of 1890 admitted sugar free of duty, but provided that domestic sugar should be paid a bounty of two cents a pound by the Federal government, and at one time five states also granted bounties. The full duty on sugar has ranged from 1.685 cents in the act of 1897, to 2.206 cents in the act of 1922—the rate which is in force today. The tariff acts of 1921 and 1922 increased the duty 76 per cent over the 1913 rate.[11a] Today the duty on sugar is about 100 per cent *ad valorem.* It is estimated that the present duty costs the American consumer $216,500,000 a year, of which $124,500,000 is available as revenue, while $92,000,000 goes to the domestic producer.[12] Three members of the faculty of the University of Wisconsin[13] estimate that the present duty increases the cost of sugar to the American farmer to the extent of $64,000,000, while the beet-sugar producers benefit to the extent of only $43,000,000—making a net loss to the farmer of $21,000,000.

Apparently as a result of protection, beet sugar—which was negligible in 1890—now provides about 20 per cent of our total consumption of sugar. Nevertheless, the Tariff Commission has expressed the opinion that the whole sugar industry in the United States is not dependent upon the protective tariff for its existence. In 1919 it estimated that, had sugar been placed on the free list in 1916, 56.8 per cent of domestic beet sugar, 43.3 per cent of Porto Rican cane sugar, 48.6 per cent of Hawaiian sugar and little or no Louisiana sugar would have survived.[14]

Under Section 315 of the tariff act of 1922 the President is authorized to modify customs duties up to 50 per cent, so that the rate of duty imposed shall equalize the difference in costs of production between the domestic producer and his chief foreign competitor. On July 31, 1924 the Tariff Commission reported to the President on the difference in costs of production in Cuba and the United States. The majority declared that this difference was 1.2307 cents a pound—less than the existing duty of 1.76 cents—and therefore recommended a reduction in the tariff. The minority declared that the difference in costs was 1.8525 cents. It did not, however, recommend an increase in duty for the time being, on the ground that the data were still inadequate.[15] President Coolidge declined to grant the decrease recommended by the majority.[16]

In a publication written by Mr. Philip G. Wright, the Institute of Economics declared in 1924 that the duty on Cuban sugar appeared to be unnecessarily high.[17]

In arriving at estimates of costs of production the Tariff Commission attempts to find a general average. The production cost in some cases is higher and in others lower than this average. Whether the duty on sugar should be increased or lowered depends upon whether the costs of the least efficient producer now in existence should be equalized with costs of competing producers abroad, and whether the present dependence of the United States upon Cuba for half of its sugar should be lessened. An increase in the sugar tariff would presumably increase the amount of sugar produced

10. *The United States of America v. The Great Western Sugar Company, a Corporation.* Information, February 6, 1929.

11. Philip G. Wright, *Sugar in Relation to the Tariff,* p. 95.

11a. The 1913 act fixed the duty on Cuban sugar at 1.0048 cents.

12. *Ibid.,* p. 98.

13. Professors John R. Commons, Selig Perlman, and B. H. Hibbard. Cf. *New York Herald Tribune,* April 12, 1929, p. 19.

14. *Costs of Production in the Sugar Industry,* p. 41, Wright, cited, p. 132.

15. *Sugar,* Report of the United States Tariff Commission to the President of the United States, 1926, p. 69, 107.

16. *Ninth Annual Report of the Tariff Commission, 1925,* p. 116.

17. Wright, cited, p. 253.

in the United States (including the insular territories) and decrease the amount of Cuban sugar consumed. But a high tariff, according to the Institute of Economics, would "tend to raise the domestic marginal cost and encourage the entrance into the field of ineffective domestic producers who, once they have become established, can claim the 'vested rights' argument against a reduction of the duty. . . ."[18] Presumably a higher duty would also increase the present profits of the more efficient producer.

ARGUMENTS FOR AN INCREASE IN THE SUGAR DUTY

American sugar-producers ask for an increase in the sugar duty (as well as a limitation on sugar imported free from the Philippines) as part of a plan of farm relief. The brief of the United States Beet Sugar Association says:

> "The beet-sugar industry is facing a serious crisis, due to the impact of competition with sugar imported from foreign countries, produced under tropical conditions of living and wages. . . .
>
> "Domestic sugar is practically the only important food commodity which is being sold at pre-war prices, notwithstanding that production costs have greatly increased. Today many of the beet-sugar companies are selling below the cost of production, and unless relief is accorded through an increase in the tariff on sugar they face disaster. It may be noted here that last year 23 of the 102 factories were unable to operate."[19]

The expansion of the sugar-beet industry is advocated as a means of diversifying American agriculture. The American Farm Bureau Federation says, "If the production of sugar beets or other sugar-producing crops can be expanded by the transfer of acreage from such surplus crops as corn, wheat, and other grain crops to the sugar crops, then the surplus problem is aided to that proportionate extent."[20] During the last ten years beet-sugar production in the United States has been stationary, despite increased production in other parts of the world.

It is also stated that the best insurance of the American consumer against extreme fluctuations in sugar prices—which reached twenty and thirty cents a pound in 1919 and 1920—is a strong domestic industry.[21] The expansion of the domestic sugar industry is further desirable upon the ground of national self-defense. Former President Coolidge has said, "It is important that as a Nation we should be independent as far as we may of overseas imports of food."[22]

It is declared that the American sugar tariff is lower than that of the majority of other countries,[23] and that the development of the sugar industry is encouraged elsewhere. Thus the British Parliament enacted in 1925 a sugar subsidy act which provides for a subsidy to home-grown sugar beets of about $4.25 a hundredweight during the first four years. The subsidy is gradually lessened, and comes to an end altogether by 1934. For 1927-1928 it totalled £4,310,456.[24]

ARGUMENTS AGAINST INCREASING THE SUGAR TARIFF

In reply to the above arguments, opponents of an increase in the sugar tariff assert that at present the world is suffering from over-production of sugar and that increasing the tariff of the United States would simply intensify this over-production by bringing new and less efficient producers into the field. It is declared that to increase the sugar tariff from 1.76 cents to 2.4 cents would place an additional burden, ranging from $75,000,000 to $150,000,000, upon the American consumer.[24a]

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18. *Ibid.*, p. 253.
19. *Tariff Readjustment—1929*, cited, No. 13, p. 2405.
20. *Ibid.*, No. 14, p. 2517.

21. Statement of S. H. Love, president of the Beet Sugar Association, "Tariff Protects Consumer," *The Christian Science Monitor*, May 3, 1929.

22. *Ninth Annual Report of the United States Tariff Commission, 1925*, p. 117. Cf. M. M. Rice, "Beet Sugar and the Tariff," *The Tariff Review*, September 1928.

23. *Tariff Readjustment—1929*, cited, No. 13, p. 2412; cf. also Wright, cited, p. 102.

24. Before 1920 the granting of bounties was forbidden by the Brussels Convention of 1902. Buell, *International Relations*, p. 144.
In 1929 the British Government lowered the tariff on raw sugars to assist British refiners. This enabled them to monopolize all British markets, to the detriment of Czechoslovakia. *The Economist*, February 9, 1929, p. 40. The European beet-sugar industry cannot be considered here, but the German situation is described by Dr. Plum in "Die Deutsche Zuckerindustrie," *Wirtschaftsdienst*, April 19, 1929. For the Czech situation, cf. *Encyclopédie Tchécoslovaque, Industrie et Commerce*, Chapter VI.
Russia has about reached her pre-war level of sugar-beet production. Cf. "The Sugar Industry of the Soviet Union," *Economic Review of the Soviet Union*, February 1, 1928.
For the Java industry, cf. *De Javasukerindustrie In Heden en Verleden Het Koloniale Bedrijfsleven.* Amsterdam, 1928. Java sugar is marketed primarily in India, Japan and China. Exports to Europe fell off from 2,091,417 piculs in 1925-1926 to 17,528 piculs in 1926-1927. Apparently this decline was due to the revival of the European beet-sugar industry.

24a. In reply it has been stated that a part if not all of the increased tariff will be borne by Cuba.

It is stated that the more important sugar producers in the United States do not need further protection as they are already declaring large dividends;[25] that an increased tariff would simply bring into existence additional inefficient producers and swell the profits of the efficient producers, to the injury of the American consumer and our foreign trade.

It is alleged that an increased sugar tariff would encourage the demand for Mexican and child labor in the United States, and that any profits would go to the sugar companies rather than to the beet-growing farmer.

It is stated that an increased sugar tariff would further injure Cuba's capacity to purchase American agricultural produce. An increased duty would, according to this view, diminish the export of agricultural products to Cuba and thus injure American agriculture. Between 1924 and 1927 exports of canned milk from the United States to Cuba declined from 34,000,000 to 14,000,000 pounds, while exports of corn declined similarly from 2,500,000 to 1,600,000 bushels. The export trade generally of the United States with Cuba declined from an average annual figure of $181,300,000 between 1921 and 1925 to $128,000,000 in 1928; and this decline has been due in part, it is alleged, to the 1922 American tariff. The brief of the Association of Mill Owners of Cuba declared, "No more certain way could be found of extinguishing Cuba as an export market for our surplus manufactures than in impoverishing her sugar industry."[26]

While the price of sugar for the time being is low, this is due, according to this view, to world causes which will eventually bring about a readjustment of supply and demand, and it would be unfair to take advantage of temporary conditions to increase duties, especially when the United States Tariff Commission and the Institute of Economics have recommended that the sugar duty be lowered.

It is urged that increased sugar-beet production is handicapped, not by inadequate tariff protection, but by the curly-top disease. According to the Department of Agriculture this is a "limiting factor in many of the beet-growing areas" for which no control has been discovered.[27] Despite the 1922 tariff, beet-sugar production has remained stationary. It is declared that production costs are cheaper in the Philippines. Therefore it is argued that an increased sugar duty would simply increase sugar production in Porto Rico, Hawaii and the Philippines. Testifying before the Ways and Means Committee, Mr. W. D. Lippitt, general manager of the Great Western Sugar Company, declared:

> "I doubt that any reasonable tariff would permit us to expand the industry in any reasonable period of time to supply our own requirements. I think, even under such an increase as has been suggested, that our increase in production, our expansion in continental United States, would barely keep pace with the increase in consumption, and unless the Philippine question is handled along with this and made a part of it, I doubt if we can increase at all."[28]

In reply to the argument of national self-defense, it is stated that the efforts of nations to become self-supporting in raw materials is a cause for competition which may lead to war; that in the case of sugar it is impossible for the United States really to become self-supporting simply because the seed of its sugar-beet industry must be imported from Europe. In fact, if it is essential for the United States to have a secure wartime supply of sugar, this supply can only be adequately secured in Cuba, simply because of the limitation of domestic production in the United States and the difficulty of defending the Philippines. By virtue of the Platt amendment Cuba must in effect become a belligerent when the United States goes to war; and the communications between Cuba and the United States may be defended with comparative ease. It is therefore argued that an increased tariff on Cuban sugar will simply impair a source of

25. For the Western Sugar Company dividend, cf. p. 104. Leading Hawaii companies averaged dividends of 15.45 per cent in 1927. Porto Rico dividends in some cases have reached 33 1/3 per cent. Cf. "The Problem of Porto Rico," cited, p. 454; *Tariff Readjustment—1929*, No. 13, cited, p. 2350. One Philippine concern is reported to have made a 51 per cent profit, *Congressional Record*, April 6, 1928, p. 6265. While this figure has been denied, it is admitted that the average dividend of the San Carlos Milling Company for the last ten years has been 23 per cent. *Facts and Statistics about the Philippine Sugar Industry*, Philippine Sugar Association, p. 24.

26. *Tariff Readjustment—1929*, cited, No. 13, p. 2338.

27. *Yearbook of Agriculture, 1927*, p. 603.

28. *Tariff Readjustment—1929*, cited, No. 13, p. 2385.

supply essential to the United States in war-time.

It is urged that an increase in the sugar duty would be unjust to American capital invested in Cuba. Only one out of twenty-two Cuban companies paid a dividend in 1926-1927 and the record is little better for the preceding three years.[29] At least two-thirds of Cuban production is under foreign control.

Moreover, it is argued that the sugar industry in Cuba was given its impetus by the Platt amendment and the reciprocity treaty of 1902. The Cuban Government accepted a price control by the United States over sugar during the World War which prevented Cuban producers from making the millions of dollars that might have accrued to them under a free market. To cripple the sugar industry of Cuba by increasing the American tariff now, it is alleged, would be an act of international bad faith.

THE SITUATION IN THE PHILIPPINES

Although free trade has existed between Porto Rico and the United States ever since the Foraker act of 1900, this régime was established between the Philippines and the United States only in the tariff act of 1909. That act, however, restricted the free importation of Philippine sugar to 300,000 tons.[30] At this time the Philippines exported to the United States only 52,234 tons of sugar. This figure increased gradually to 296,113 tons in 1924, and jumped to 456,658 tons in 1925 and 500,290 tons in 1927. The increases since 1923 have been attributed in part to the Fordney-McCumber tariff on sugar. At present, however, the Philippines provide the United States with only 8.59 per cent of its sugar.

Believing that "the unlimited and constantly increasing duty-free importation of Philippine sugar into the United States constitutes a grave menace to the continuation of the domestic sugar industry," Congressman Timberlake of Colorado introduced a resolution in February 1928 which proposed to limit to 500,000 tons the amount of sugar that might annually enter the United States free of duty.

The sugar industry does not seem to have the same hold upon the Philippines as it has upon Cuba, Porto Rico and Hawaii. While sugar comprises about 50 per cent of the exports of Porto Rico, 59 per cent of Hawaii's and 80 per cent of Cuba's exports, it comprises only 32 per cent of the exports of the Philippines.[31] The expansion of the sugar industry here has been restricted by laws forbidding corporations to hold land in excess of 2,500 acres, by the Chinese exclusion laws, and by general uncertainty as to the political future.

At present there are in the Philippines about thirty-six *centrales*—having an annual output of about 600,000 metric tons—half of which are in the hands of Filipinos.[32] Between 1916 and 1920 the Philippine Government advanced funds for the construction of eight *centrales*, the stock of which was to be owned by tributary planters.[33] "The successful mills in the Philippines are generally not engaged in the cultivation of the cane. The cane is produced on many small farms operated by Filipinos owning the land, or the tenants of other Filipinos who own the land."[34] This seems to be in contrast to the system of production by wage earners and *cólonos* in Porto Rico and Cuba.[35]

The proposal to restrict the amount of duty-free sugar entering the United States from the Philippines has met strong opposition, and was not accepted by the House Ways and Means Committee. It is alleged that while the proposal would not do immediate damage to the Philippine industry, it would prevent future developments, to the economic detriment of the islands.

29. Cf. the Exhibits, *Tariff Readjustments—1929*, cited, No. 13, p. 2352.

30. It also excepted rice, and imposed limitations on the free importation of various types of tobacco. In the case of *Downes v. Bidwell*, 182 U. S. 244, the Supreme Court decided that Congress had the power to draw up distinct tariff schedules for "unincorporated" territories. The tariff act of 1913 removed the sugar limitation of 300,000 tons.

31. Between 1898 and 1927 sugar production has increased 1,003 per cent in Porto Rico and 1,427 per cent in Cuba, but only 123 per cent in the Philippines. *Facts and Statistics about the Philippine Sugar Industry*, cited, p. 1.

32. Twenty-eight per cent of the *centrales* are owned by Americans; 22 per cent by Spaniards. *Facts and Statistics about the Philippine Sugar Industry*, cited, p. 46.

33. *Tariff Readjustment—1929*, Reprint, Statement of Major-General Frank McIntyre, representing the Philippine Government, p. 15.

34. *Ibid.*, p. 17.

35. "The Problem of Porto Rico," cited, cf. also p. 116 of this report.

Moreover, the United States may now export its goods freely into the Philippines. The Philippines, however, are not free to enter into tariff agreements with their neighbors. As long as this tariff régime exists, it is only just, according to this view, that the United States should give the Philippines free access to our markets. On August 15, 1928, Governor Henry L. Stimson declared to the American Chamber of Commerce in the Philippines that the adoption of the Timberlake resolution "would mean going back to those old doctrines of colonial relations of 300 years ago, which held that the colonies of a country existed only for the benefit of the mother country and could be exploited at will by that country. . . . The American Flag stands today not only for individual freedom but for freedom of trade for all people under that Flag. . . ."

In the majority of the colonies of the world duties are levied upon goods entering from the mother country, and vice versa. In some cases discriminations are made, but, in those colonies following the principle of the open door, the same duty is charged on goods from the mother country as on goods from foreign soil. For example, British manufactures entering Nigeria must pay the same duties as American manufactures. In the Philippines American manufactures may enter free, while British manufactures must pay a duty. As a result of this closed-door régime, about three-fifths of the trade of the Philippines is with the United States. A recent editorial in *The New Republic* states:

". . . Is there not something artificial in the fact that the United States, 7,000 miles removed from these islands, should dominate their trade? . . . The American tariff has artificially diverted to a far-distant United States trade that, under the open-door tariff régime, would have gone in large part to China, Japan and other parts of the East. . . . The American tariff policy has been an instrument for placing the Philippines in economic dependence upon the United States. Opponents of Philippine independence now use this instrument, which was deliberately created by American policy, as an argument why our promises to these people cannot now be fulfilled. The one advantage of the Timberlake resolution is that it exposes the shallow hypocrisy of this contention. If it were accompanied by a provision granting the Philippine legislature full tariff autonomy, it might well be supported. . . . Every effort must be made to prevent the sugar industry from dominating the life of the Philippines as it has already come to dominate the life of Hawaii, Porto Rico and Cuba. Every effort must be made to stimulate a diversified system of agriculture, in which the Filipino farmer will work for himself and not for a foreign capitalist."[36]

Mr. Pedro Guevara, Philippine Commissioner, stated before the Ways and Means Committee, ". . . if this suggestion is going to be adopted, a clause also ought to be inserted in the tariff law granting independence to the people of the Philippine Islands. If that is done, we will have no objection to it."[37]

General McIntyre has stated that progress in production in the future will be slow. But Mr. Pedro Guevara is reported to have declared that sugar production in the Philippines will reach 1,500,000 tons within fifteen or twenty years.[38]

SUGAR PRODUCTION IN CUBA

The comparatively small island of Cuba is the world's leading producer of cane sugar, being responsible for nearly a quarter of the world's annual crop. "Cuba has vast areas of land better adapted, perhaps, than any other region in the world both with respect to soil and climate for the production of sugar."[39]

Serious cultivation of sugar in Cuba began in about 1790. Originally it was a crop cultivated by a comparatively large number of farmers, each possessing a primitive grinding mill (*ingenio*).[40] In 1827 there were a thousand grinding mills in Cuba, a number that had increased to 2,000 in 1860.[41]

The invention of machinery brought about a revolution in the Cuban sugar industry.

36. "The Future of the Philippines," *The New Republic*, May 1, 1929.
37. *Tariff Readjustment—1929*, cited, No. 13, p. 2374.
38. A. P. dispatch, *Diario de la Marina*, January 9, 1929.
39. Wright, cited, p. 100.

40. Ramiro Guerra y Sánchez, *Azúcar y población en las Antillas*, p. 45.
41. *Ibid.*, p. 52.

Primitive grinding mills gradually gave way to gigantic *centrales* having a capacity of thousands of sacks a season. The introduction of railways made it possible to transport sugar cane long distances—another incentive to expansion. Since large-scale production requires large investments, it proved impossible for each sugar planter to possess his own mechanical mill; consequently a tendency to concentrate began. Originally the growing and grinding of cane had been performed by a single producer, but the process now became divided. The sugar-cane grower, called a *cólono*, came to sell his cane to a *central*—usually the property of an independent capitalist—which relied for raw material upon the sugar fields of a number of cultivators. But the more the *centrales* competed with each other for cane, the better the price the *cólonos* received and the more uncertain became the *centrales*' source of supply. So great was the capacity of each *central* and so large the investment that it became necessary, if each *central* were to be profitably operated, for it to find secure and ample sources of cane. Each *central* therefore began to buy up or establish exclusive control over vast areas of sugar land. By building private railways through land nominally owned by independent farmers and by building private ports, sugar *centrales* came to mark out certain zones in which they enjoyed a virtual monopoly. In this process the small, independent proprietor began to disappear; in his place large estates were created, owned in many cases by corporations or absentee landlords and operated by wage earners or tenant farmers. The 2,000 sugar mills were gradually replaced by 180 *centrales*—approximately the number which operates in Cuba today.

Despite this revolution in the methods of producing sugar, industry in Cuba did not flourish so long as the island remained under Spain, for intermittent wars of independence, and uncertainty as to the political future made foreign capital hesitant. But following the acquisition of independence by Cuba as a result of the Spanish-American War, foreign capital flowed into the country. Its entrance was facilitated by the American military occupation under General Wood—notably by the extermination of yellow fever, the general improvement of sanitary conditions, and liberal railway and banking legislation. Finally, the Platt amendment and the reciprocity treaty of 1902 gave Cuba a guarantee of political stability and a special commercial position on the American market.

THE CUBA RECIPROCITY TREATY OF 1902

Referring to the permanent treaty of May 22, 1903 which embodied the Platt amendment, the United States Tariff Commission has said: "It is important to recognize that without this guarantee of public order assuring labor and capital the enjoyment of the fruits of industry, the great commercial development which has subsequently occurred in the Island would have been impossible. . . . The United States has greatly profited by the opportunity for profitable investment of capital in Cuba. . . ."[42]

In 1901 President Roosevelt stated that Cuba had accepted the Platt amendment which placed her "in closer and more friendly relations with us than with any other power"; the United States was therefore bound to "pass commercial measures in the interest of her material well-being."[43] In March 1902 a reciprocity bill was introduced into the House authorizing the President to negotiate an agreement contemplating a 20 per cent reduction in duties until December 1903, provided Cuba adopted immigration laws as restrictive as those of the United States. It was hoped that the Cuban industry could be restored by the latter date, because the bounties given European sugar were to come to an end in September 1903 as a result of the Brussels Convention.[44]

Opposition to reciprocity, however, arose from American beet-sugar interests and others, who contended that Cuban sugar would injure the American beet-sugar industry which had been built up by the protective tariff. It was also contended that

42. *Reciprocity and Commercial Treaties,* United States Tariff Commission, 1919, p. 322.

43. Message of December 3, 1901. *Effects of the Cuban Reciprocity Treaty,* United States Tariff Commission, 1929, p. 388.

44. Cf. footnote 24, p. 106.

the reciprocity agreement would benefit not the Cuban producer but the American Sugar Refining Company, popularly known as the "Sugar Trust," which converted Cuban raw sugar into the refined product.

The reciprocity bill as amended was finally passed and went to the Senate. Here a committee was appointed to investigate the truth of the charges that reciprocity would benefit only the Sugar Trust. On July 1, 1902 Congress adjourned and the reciprocity bill died in Senate committee.

Undaunted by the failure of this method to secure reciprocity, President Roosevelt proceeded to negotiate a reciprocity agreement with Cuba. This agreement, signed on December 11, 1902, provided that all Cuban goods not on the free list should enter the United States at a reduction of 20 per cent from the ordinary tariff rates. Dutiable American goods imported into Cuba were to be divided into four classes, entering at rates which were respectively 25, 30 and 40 per cent below the regular Cuban rates. Duties could not be imposed in the future upon goods then on the free list.

In accordance with its terms, President Roosevelt placed the agreement before both branches of Congress for their approval. Although the same arguments were used against reciprocity as had been used in the past, both the House and Senate approved the convention, and it was proclaimed on December 17, 1903. In December 1902 the American Sugar Refining Company, which previously had confined its holdings to cane sugar, purchased $7,500,000 of stock in the American Beet Sugar Company.[45] Thus the opposition of the beet-sugar interests to the agreement was partly removed.

EFFECTS OF THE TREATY

Under the reciprocity agreement, therefore, Cuban sugar received a reduction of 20 per cent of the full-duty upon entering the United States. What effect did this reduction have upon the Cuban sugar industry? In 1903 Cuban sugar constituted 45.9 per cent of the total sugar imports of the United States, 34.5 per cent coming from other foreign countries.[46] In 1904, the first year in which the reciprocity treaty was in effect, the percentage of Cuban sugar rose to 60 per cent. While it subsequently declined it reached 60.8 per cent in 1910. The percentage of full-duty sugar declined from 23 per cent in 1909 to 7.1 per cent in 1910 and thereafter steadily fell away, so that in 1914 only 0.3 per cent of the sugar imported into the United States was full-duty sugar.[47]

Thus between 1904 and 1910 full-duty sugar competed against Cuban sugar, entering at a 20 per cent reduction in duty. "As a consequence, in these years the larger part of the remitted duty went to the Cuban producer. This involved a loss to the United States Treasury without a corresponding gain to the American consumer."[48] Thereafter, however, full-duty sugar virtually disappeared from the American market.[49] As a result, the price of sugar in the United States was determined by the competition of the Cuban sugar producers among themselves and by the duty on Cuban sugar, instead of by full-duty sugar which no longer entered the country. The United States Tariff Commission concluded therefore that in 1913 the remission of the duty on Cuban sugar had "enured wholly to the benefit of the American purchaser of Cuban sugar. In this year and later the amount of protection to the domestic producers and to the producers of the noncontiguous territories was less, by the amount of the Cuban preference, than the rate of duty in the tariff act."[50] In other words, the Cuban reciprocity treaty now benefits the American sugar refiners and not the Cuban sugar producers, simply because full-duty sugar, having been driven out by Cuban competition and this tariff advantage, no longer enters the United States. So far as the sugar industry of Cuba is concerned, the reciprocity agreement at present is of little value.

Nevertheless, the reciprocity agreement proved of distinct advantage to Cuban sugar producers before 1913. Had it not been for this agreement it is reasonable to believe

45. *Effects of the Cuban Reciprocity Treaty*, cited, p. 435.

46. The remainder came from the non-contiguous territories of the United States.

47. *Effects of the Cuban Reciprocity Treaty*, cited, p. 66.

48. *Reciprocity and Commercial Treaties*, cited, p. 336.

49. Except in 1920 when, because of an abnormal post-war demand, it constituted 19.9 per cent of the imports of the United States.

50. *Effects of the Cuban Reciprocity Treaty*, cited, p. 78.

that Java cane sugar and European beet sugar would have continued to compete for the American market as they did before 1913 and that the Cuban sugar industry would not have grown to its present proportions.

Since 1900 American capital has poured into Cuba. Our investments there are greater than in any other country except Canada. They are now estimated to be $1,150,000,000, of which about $600,000,000 is in the sugar industry. About 79 per cent of the total exports of Cuba consist of raw sugar.[51] The production of sugar is in the hands of 180 *centrales*. It is estimated that these *centrales* own or control about 20 per cent of the area of Cuba, or about half of the arable land.[52]

SUGAR PRODUCTION AND THE WORLD WAR

During the World War demands for Cuban sugar greatly increased. To prevent the price of sugar from becoming excessive, the United States established a Sugar Equalization Board, following its entrance into the war. In 1918 this board contracted to purchase the entire Cuban crop at a price fixed by the board at 5.50 cents a pound. The board then sold this sugar at a margin of .33 cents a pound which netted it a profit of $42,000,000.[53] The Cuban Government accepted this price control, partly because of a desire to win the war, and partly because of its dependence upon the Allies for food and shipping. At the same time, Cuban production increased as follows:

CUBAN SUGAR PRODUCTION, 1914-1920

Long Tons (2,240 lbs.)

Crop Year	Total World Sugar Production	of Which Cuba Produced	Cuba's Per Cent of World Output
1913-14	18,436,478	2,597,732	14.09
1914-15	18,484,889	2,592,667	14.02
1915-16	16,869,894	3,007,915	17.83
1916-17	17,098,612	3,023,720	17.68
1917-18	17,380,831	3,446,083	19.82
1918-19	15,797,460	3,971,776	25.14
1919-20	15,495,142	3,730,077	24.07

Farr, *Manual of Sugar Companies, 1928*, p. 12.

Senator Cortina has said: "No country of the world was as generous with its products as was Cuba during the World War. . . . Since the war, this act of Cuba [in accepting price control] has found no compensation of a protective nature in the tariffs of any country." On the contrary, the United States increased its duty on Cuban sugar to nearly two cents a pound, "that is to say, equal to what it costs to produce sugar in Cuba."[54]

In 1919 the price control over sugar came to an end. There followed a violent fluctuation in sugar prices. On April 1, 1920 the price was 13 cents—on May 19 it had risen to 22½ cents. Speculation became widespread and Cubans and Americans for a time made fortunes. The period was known as "the Dance of the Millions." Suddenly the price collapsed, reaching 3¾ cents on December 13, 1920. Speculators and others who had contracted to purchase cane at a certain figure now found themselves unable to dispose of their crop except at a loss. Many could not meet the sums they had borrowed from the banks to move the crops, and went into bankruptcy, dragging about four banks with them. American finance went to the rescue. Professor Jenks writes, "In her greatest despair since 1902, Cuba was stripped of credit facilities other than those provided by American banks who stood by their Cuban business. The National City Bank of New York and the Royal Bank of Canada replaced the *Banco Nacional* and *Banco Español* as the leading banks of Cuba."[55] As a result of this process of

51. *Comercio Exterior*, Cuba, Secretaría de Hacienda, 1926, p. IX; Jenks, cited, p. 299.

52. Ramiro Guerra y Sánchez, cited, p. 66; Jenks, cited, p. 286.

53. Jenks, cited, p. 203.

54. José Manuel Cortina, *El Azúcar y la Nación Cubana*, Havana, 1926, p. 21.

55. Jenks, cited, p. 245. Cf. also *Comisión Temporal de Liquidación Bancaria*, Cuba, 1924.

liquidation, the ownership of the Cuban sugar industry to a certain extent passed to American hands. Whereas before the World War foreign-owned mills produced about 35 per cent of the crop, in 1926-1927 it was estimated that they controlled about two-thirds.[57]

Many of these foreign mills, sometimes backed by unlimited resources from the United States, began to expand, rather than to contract production. The growth of the Cuban sugar crop between 1919 and 1925 is as follows:

CUBAN SUGAR PRODUCTION, 1921-1925

Long Tons (2,240 lbs.)

Crop Year	Total World Sugar Production	of Which Cuba Produced	Cuba's Per Cent of World Output
1920-21	16,652,775	3,936,040	23.04
1921-22	17,649,687	3,996,387	22.64
1922-23	18,359,484	3,602,910	19.62
1923-24	20,096,012	4,066,642	20.23
1924-25	23,687,379	5,125,970	21.64

Weekly Statistical Sugar Trade Journal (Willett & Gray), January 10, 1929, p. 23.

BANKRUPTCY THREATENED BY LOW PRICES

In 1921 and 1922 the United States increased the tariff on sugar[58]—an increase which was viewed with alarm in Cuba. Nevertheless, the price of sugar gradually began to recover until in 1923 the average price was 5.24 cents a pound. Thereafter it began to fall—in 1924 it was 4.186 cents and in 1925 and 1926 it averaged about 2.5 cents. In 1927 it averaged 2.957 cents and in 1928 2.459 cents.[59] Cuban companies have passed their dividends for several years,[60] and Cubans state that the whole economic foundation of the country is in a critical condition.

If left to the fate of the law of supply and demand, the least efficient producer would soon, under these conditions, be forced into bankruptcy, leaving the future sugar market to the strongest. But apparently the Cuban Government believed that the operation of this law would work to the advantage of the powerful American companies and to the disadvantage of the weaker Cuban producers. It is stated that at present American-owned *centrales* obtain lower rates of interest than do Cuban *centrales*—an item of importance inasmuch as the average *central* must secure an annual advance of half a million dollars in order to move a crop.[61] It is also stated that costs of production are higher for Cuban than for American producers, *i. e.* Cubans must pay higher prices for sacks, etc., because they buy in smaller lots and generally they have more difficulty in selling in the American market than the American *central.* The Cuban rather than the American *centrales* are the "marginal" producers; and if the reduction of the sugar crop is left to the ordinary operation of the law of supply and demand, the Cuban producer would be the first to go out of business, leaving the field to foreign capital. Others do not accept entirely this analysis. They state that the strongest Cuban producers, who are responsible for about half of the crop still in Cuban hands, obtain credit and marketing facilities upon exactly the same terms as foreign producers.

CROP-RESTRICTION LAWS IN CUBA

Apparently in an attempt to forestall the danger of complete foreign control, the government decided to impose a crop restriction on all sugar companies in the island.[62] On May 3, 1926 the Cuban Congress voted a law granting the President power to set the dates on which sugar-grinding could take place, and to limit up to 90 per cent of the estimated crop the amount of cane which

57. *Ibid.*, p. 283, 284.
58. Cf. p. 105.
59. Exclusive of United States duty.
60. Cf. p. 108.

61. Dr. Mario Díaz Cruz, "Plan para solucionar el problema azucarero," *Boletín Oficial de la Cámara de Comercio de la República de Cuba,* March 1929, p. 174.
62. José Manuel Cortina, cited.

each sugar mill might grind. Mills grinding in excess of such a limitation were subject to a tax of $5 per sack of sugar, the proceeds of which were to go into a special fund for public works. Under the authority of this law, President Machado fixed the opening of the sugar season at January 1, 1927; when he limited the crop for 1926-1927 to 4,500,000 tons.[63]

A more extensive sugar restriction law was enacted on October 4, 1927. This law established the National Sugar Defense Commission, composed of five members appointed by the Cuban President. The commission was to estimate the sugar required for consumption in Cuba, the United States and other countries. And upon this basis, the President was to fix the amount of the authorized Cuban crop for the following year, unless limitation merely resulted in increased production in other countries. Sugar mills violating the restriction were liable to a fine of $20 per sack in excess of their authorized allowance.

The 1927 law also provided for a Cuba Sugar Export Company which was to be solely responsible for the sale of Cuban sugar in excess of that required for consumption in Cuba and the United States. The government was to advance annually to the company $250,000 to advertise Cuban sugar abroad. Stock in the Cuba Sugar Export Company could be held by sugar producers in proportion to the sugar which each manufactured.

Under the 1927 law, the sugar crop for 1927-1928 was restricted to 4,000,000 tons, 500,000 tons less than the previous year. Three million, three hundred thousand tons were earmarked for sale in the United States, and 600,000 tons in other foreign markets.[64] Apparently the object of this provision was to restrict sugar exports to the United States so that the latter would have to import some full-duty sugar, thus giving Cuba the benefit of the preferential duty established in the reciprocity treaty of 1902. According to the United States Tariff Commission, the purpose of this plan was to increase the price of refined sugar one-half cent a pound, which would cost the American consumer $35,000,000 annually.[65]

As a result of these restrictive measures, Cuban production declined 873,000 tons in the period from 1926 to 1928. The plan did not, however, work to Cuba's advantage, for production elsewhere merely increased—in Porto Rico from 541,485 to 670,831 tons; in Hawaii from 705,350 to 807,180 tons; in the Philippines from 436,705 to 622,704 tons; while beet-sugar production within the United States increased from 804,439 to 965,241 tons.[66] (This last refers to refined sugar.)

CUBAN SUGAR PRODUCTION, 1926-1929

Long Tons (2,240 lbs.)

Crop Year	Total World Sugar Production	of Which Cuba Produced	Cuba's Per Cent of World Output
1925-26	24,614,152	4,884,658	19.84
1926-27	23,733,172	4,508,521	18.95
1927-28	25,331,273	4,011,717	15.71
1928-29	26,709,600	4,900,000*	18.35

*Estimate.
Weekly Statistical Sugar Trade Journal (Willett & Gray), January 10, 1929, p. 23.

In a decree of December 27, 1928 President Machado ended the crop restriction régime and stated that henceforth the Cuban Sugar Export Company was to confine itself to advertising and compiling statistics.[67] As the above table shows, the 1928-1929 sugar crop, free of government restriction, will be about a million tons larger than the crop of the preceding year.

CUBAN PROPOSALS FOR A NEW TREATY

The Cuban Government now turned to a new plan. It undertook negotiations with the United States looking to the restoration of the privileges which Cuban producers en-

63. Decree No. 1505, September 21, 1926; Decree No. 1924, December 10, 1926.

64. In addition, certain reserves from the previous crop were similarly allocated. Decree of January 21, 1928. *Gaceta Oficial*, January 21, 1928, p. 976.

65. *Effects of the Cuban Reciprocity Treaty*, cited, p. 24.

66. *Weekly Statistical Sugar Trade Journal* (Willett & Gray), January 10, 1929, p. 23.

67. *Ibid.*, p. 21.

joyed under the reciprocity agreement until 1913.

In making such a request Cuba invoked the special political position accorded her in the past by the United States, as well as the predominance of American investments in the island today. According to the Cuban Ambassador, Orestes Ferrara, "the banks of your Nation control the monetary market; American ships enter and leave Cuban ports paying less port duties than the ships of other nations by special provisions of the law, and 76.1 per cent in the year 1919, and 62.1 per cent in 1927, of the Cuban imports were products of the soil and industry of the United States."[68] Instead of being given a favored position, the Cuban Government believes that it is treated more severely by the United States than other countries. Ambassador Ferrara states:

> "Of the approximate $600,000,000 customs duties collected annually, the products of Cuba pay to the American treasury about $150,000,000. Canada, which exported to this country in 1927 $475,028,148, paid around $26,000,000. France, which exported to the United States $167,799,661, paid more or less $50,000,000, and the same happened with regard to Germany, whose exportations amounted to $200,554,291. The United Kingdom, which shipped $357,930,937, paid less than $70,000,000. The products of the soil and industry of Cuba pay almost as much as the products of England, France, and Germany together, which are the three foremost nations exporting to this country.
>
> "Taking the total of the Cuban exportations to the United States, including in this total the raw materials which are not subject to duty, the customs tariff levy an average duty on our products of 55 per cent in 1927; while it levies 18 per cent to England; 31 per cent to France; 25 per cent to Germany; 6 per cent to Canada; and 4 per cent to Japan."[69]

A somewhat opposing view of the tariff concessions made by Cuba to the American trade has been expressed by the United States Tariff Commission. In its report on the reciprocity treaty, the commission states:

> "An appraisal leads to the conclusion that the concessions granted by Cuba have exerted an influence upon trade which, even in the years immediately following the treaty, accounted for but a minor part of the expansion of United States exports to that island, and which at present is not the determining factor in any considerable percentage of the total trade. General and detailed comparisons between the expansion of exports to Cuba and the expansion of exports to other markets afford evidence that many factors, such as the nearness of Cuba to the United States, the efficiency of production and marketing, and the investment of American capital, rather than tariff favors account for the advance of American export trade."[70]

In a note of December 15, 1927 the Cuban Government advanced two different plans for amending the reciprocity treaty with the United States. The first plan would establish a greater degree of reciprocity between the two countries. Cuba would increase the present preference granted to American goods by 10 per cent, while the United States would increase its preference to Cuban goods from 20 per cent to 40 per cent. Sugar entering the United States free of duty from the Philippines would be limited to 300,000 tons.[71] Apparently the object of this proposal is to increase the consumption of Cuban sugar in the United States at the expense of the Philippines and of the beet-sugar producer.

The second proposal of the Cuban Government is aimed at securing benefits for Cuba, but without interfering "with the protection extended to the competitive industries of the United States by the tariff." It proposes that machinery and certain agricultural and food products from the United States should enter Cuba free of duty—for the purpose of increasing the export of American agricultural produce. In order to make the preference real, Cuba promises not to lower duties to less than 15 per cent *ad valorem*. In addition Cuba proposes to increase the preference on about half of the remaining imports from the United States. The other half would not receive the benefit of the reduced duty.

In return for these concessions, the United States is to grant to Cuba a gradual reduction in the duties on sugar over a period of ten years until the duty is entirely

68. Note of January 10, 1929. *Tariff Readjustment—1929*, cited, No. 45, p. 9734. In 1927 79.1 per cent of Cuba's exports were to the United States, in comparison with 53.7 per cent in 1913. It should be noted, however, that the Royal Bank of Canada and N. Gelatz & Company are more powerful than any single American bank in Cuba.

69. *Ibid.*, p. 9735. Virtually all governments, however, regard sugar as an article susceptible of a heavy duty, cf. p. 106.

70. *Effects of the Cuban Reciprocity Treaty*, cited, p. 25.

71. The text of the note is published in *Tariff Readjustment—1929*, cited, No. 45, p. 9736.

removed. But this benefit would be enjoyed only on a fixed quantity of sugar.[72]

The proposal to abolish in ten years the duty upon a restricted amount of Cuban sugar, would not, according to the Cuban Government, destroy the protection now given by the tariff to the American beet-sugar industry.

> "Inasmuch as only a limited quantity of Cuban sugar could be imported at the reduced rate (or duty free) and all additional amounts would have to be imported at the present rate of duty, it is to be expected that the price of sugar in the markets of the United States would not be depressed by that proportion of Cuban sugar which received more favored treatment, and that domestic sugars would continue to enjoy substantially the present tariff protection.
>
> "The limitation upon the imports of Cuban sugar subject to reduced tariff rates would also tend to prevent the price of sugar in the American market from falling below the cost of production, thereby ruining the industry, as the Cuban sellers would not then be under the strong pressure which they are to-day to dispose of the largest amount of sugar possible in the American market. The United States under present conditions is greatly over-supplied with sugar—that is when the amount of the domestic and Cuban sugars available are added together, they are far in excess of immediate requirements. . . By fixing a limit to the quantity of Cuban sugar which would enter the United States at a reduced rate of duty (or duty free), the American market would be relieved to a large extent of the pressure which the present over-supply exerts and prices would tend to adjust themselves to the needs of consumption."

It was proposed to admit free of duty an annual amount ranging from 3,581,432 tons to 4,000,000 tons. After ten years the increase would be at the rate of 150,000 tons annually. These figures would be revised, if necessary, to protect the interests either of Cuba or the United States. It was subsequently reported that the Cuban Government favored the free admission into the United States of 2,500,000 tons.[73] In reply to these proposals Secretary of State Kellogg declared that they were "much more favorable to Cuba than to the United States." He declared that when the proposals of the Cuban Government were examined in the light of the report of the Tariff Commission on the reciprocity treaty, "it does not appear on what basis they can be justified."[74]

The Cuban Ambassador, in a note of January 10, 1929, expressed disagreement with some of the conclusions of the Tariff Commission in regard to the effects of the reciprocity treaty, and repeated the suggestion for a new treaty. In a note of March 2, 1929 the State Department declared that "careful consideration" was being given to the matter.

The Cuban plan was criticized by a representative of the American Beet Sugar Association, who stated that its adoption would mean the elimination of the beet-sugar industry in the United States.[75]

SOCIAL ASPECTS OF THE CUBAN SUGAR SITUATION

At present the sugar *centrales* of Cuba secure their cane either from "administration" farms—lands cultivated by wage earners under the immediate supervision of the *central*—or from *cólonos*. Sometimes the *cólono* owns his own land, but in the majority of cases he leases land from the *central*. The *central* advances money, usually at 8 per cent, to the *cólono* for the purpose of buying tools, oxen and other products necessary for cane cultivation. The company agrees to pay to the *cólono* the equivalent in money of 5½ *arrobas* of sugar for each 100 *arrobas* of cane delivered, minus the advances made[76] and rent for the land. A *cólono's* contract usually runs for five or ten years. It frequently happens that the *cólono* gets hopelessly in debt to the *central*. In such a case he usually loses the ownership of any land in his possession. There does not seem, however, to be any peonage in Cuba. This type of one-crop agriculture, in which the tenant works upon a five- or ten-year contract, has not been regarded as conducive to the diversified or most productive use of the soil. The *cólono* has little incentive to improve his land or

72. The proposal also included a limitation on the duty on Cuban cigars to 50 per cent *ad valorem*. The maximum duty on other Cuban imports would be 35 per cent *ad valorem*.

73. *La Prensa*, March 11, 1929.

74. *Tariff Readjustment—1929*, cited, No. 45, p. 9736.

75. *Diario de la Marina*, March 14, 1929.

76. The text of a sample contract is published in Ramiro Guerra y Sánchez, cited, p. 179. An *arroba* is about 25 pounds.

even to erect a suitable dwelling. He usually lives in the most primitive type of hut, having a thatched roof, no windows and a mere aperture for a door. The cultivation of cane is so exacting that few *cólonos* attempt to raise foodstuffs; in fact the *cólono* is severely restricted in such cultivation by his contract. The *central* insists that he cultivate sugar cane. A Cuban adviser to the Cuban Chamber of Commerce has said:

> "In the logical order of things, we should be the richest people in the world. Nevertheless, our people are generally poor. The Cuban rural population lives submerged in misery, in houses of palm-leaves, lacking even the most elementary things of modern life. They enjoy neither the comforts nor the well-being of the farmers of other countries less favored than ourselves by nature. Their food is usually reduced to rice, beans, jerked beef, condensed milk and coffee, articles which are imported from foreign countries. . . .
>
> "Our people have to live twelve months a year on the product of the work of a four-months' sugar crop. The daily wage which our working classes generally receive is so small that it merely permits them to subsist. . . ."[77]

There is no middle-class farmer working his own land in Cuba, such as one finds in France or the United States. The gap between the poverty of the Cuban countryside and the luxury of Havana is striking.

Although the semi-starved condition of the rural population of Cuba today may be due in part to temporary conditions of overproduction, some Cuban authorities attribute this condition fundamentally to the nature of the sugar industry.[77a] One Cuban historian states that while Cuba was under Spain it enjoyed economic independence, which was the necessary basis for its struggle for political liberty. But since acquiring political independence, Cuba has become the prey of "*latifundism.* This process concentrates thousands of holdings into great agricultural units; it eradicates the cultivator from the soil; destroys the Cuban class of rural proprietors and independent agriculturists"; and as a result Cuba has become a "satelite" of a foreign economic power. The basis of Cuban nationality has been destroyed.[78] On the other hand, an American historian declares: "That Cuba as a whole profits from the presence of foreign capital is impossible to deny."[79]

Whether or not as a result of the intensified cultivation of sugar, Cuba also has become dependent upon foreign supplies of food. In 1926 nearly 39 per cent of the total imports of Cuba consisted of alimentary products.[80] In this year Cuba imported about 216,000,000 kilos of rice, 147,000,000 kilos of which came from British India, while 33,000,000 kilos came from China.[81]

Finally, the sugar industry has resulted in the importation of contract labor. Between 1913 and 1921 80,000 Haitian and 75,000 Jamaican laborers entered the country.[82] In 1927 10,423 Haitians and 3,100 Jamaicans entered, while 11,085 Haitians and 4,756 Jamaicans departed.[83] Employers obtain authorization to import labor by decree which specifies the conditions upon which importation may take place. Thus in a decree of October 19, 1927 the United Fruit Company was authorized to import 10,500 laborers from the Antilles.[84]

Altogether about twenty companies import contract laborers. It is estimated that about 500,000 men are employed in the sugar industry; and that of these 200,000 are foreigners, largely of negro and Spanish extraction. This system of contract labor has been criticized on the ground that the imported labor is frequently ill-treated, a question which has caused concern to the Haitian and British Governments.[85] It is said

77. Dr. Luis Machado, *Heraldo de Cuba,* April 3, 1929.

77a. Some observers believe that the government lottery is also one of the causes of Cuban poverty today. Cf. "Cuba and the Platt Amendment," F. P. A. *Information Service,* Vol. V, No. 3, p. 40.

78. Ramiro Guerra y Sánchez, cited, p. 76.

79. C. E. Chapman, *A History of the Cuban Republic,* p. 622.

80. *Comercio Exterior,* cited, p. vii.

81. *Ibid.,* p. 220. These imports of rice by Cuba from the Orient stand in contrast to the imports of rice by Porto Rico which come largely from the United States because of the American tariff. Cf. "The Problem of Porto Rico," cited, p. 454.

82. Ramiro Guerra y Sánchez, cited, p. 134.

83. *Estadisticas, 1927,* Comisión Nacional de Estadística y Reformas Económicas, Cuba, Part 14.

84. The laborers must be exclusively employed in connection with the work of two *centrales;* the *centrales* must bear the expenses of importation and of returning the laborers to their place of origin as soon as their labor is finished. Moreover, the company must deposit a $20 bond for each laborer, a sum which is estimated to cover the expense of repatriation. These sums are returned to the company following the return of the laborers to their country of origin.

85. There is a Cuban law forbidding company stores to pay laborers in *vales* or IOU's, but it is understood that this law is frequently violated and that many employers virtually oblige laborers to take their salaries in the form of purchases from company stores.

Emigration to Cuba from Haiti was suspended from July to December, 1928. Cf. *Seventh Annual Report of the American High Commissioner,* p. 3.

In 1924 the British Government protested to Cuba in regard to the treatment of Jamaicans. *Correspondence between H. M. Government and the Cuban Government respecting the ill-treatment of British West Indian Labourers in Cuba,* Cmd. 2158. Cf. also Cmd. 2245 (1924).

that the importation of negro labor is affecting the racial composition of Cuba. A pro-Spanish writer, Luis Araquistaín, refers to "the great racial tragedy of Cuba; its increasing Africanization."[86] Dr. Ramiro Guerra y Sánchez declares that if the sugar companies paid a higher wage they could secure adequate labor within Cuba and thus avoid importation.[87] In reply the companies might assert that their costs of production are already greater than their returns, so they must find labor where it is cheapest.

SUGGESTED SOLUTIONS OF THE SUGAR PROBLEM

Already the Cuban Government has made two efforts to remedy the present sugar situation. The first was the two-crop restriction and marketing laws which have since been repealed. The second was the attempt to negotiate a new reciprocity treaty with the United States under which a limited amount of Cuban sugar might enter free and the remainder at the full duty. The object of both measures is to secure to Cuban producers the concessions in the reciprocity treaty of 1902 which since 1913 have been going to American refiners. But if the plan is to succeed, some control over Cuban sugar exports to the United States must be established. Otherwise, the competition of Cuban producers would force down the price of all sugar entering the American market so that American refiners would again profit from any tariff concession.

A number of proposals have recently been made in Cuba to meet this and other problems confronting the sugar industry and the country generally.[87a]

1. *Sales Monopoly.* One proposal calls for the establishment of a National Sugar Institute having a monopoly on the sale of Cuban sugar abroad, and of the purchase of materials employed in the sugar industry at home. Such a body could eliminate many of the charges of middlemen and speculators. This institute should also loan money to *centrales* upon reasonable terms. Its expenses could be met by a tax of ten cents per sack of sugar.[88]

2. *Export Control.* A second proposal is that a Cuban commission should assign among the various Cuban producers monthly "contingents" of sugar to be exported to the United States. The sale of sugar on all other markets should be free.[89]

3. *Refining of Sugar.* A third plan asks that the export of raw sugar from Cuba be prohibited and that refining plants be erected at each *central.* It is argued that if Cuba refined the raw sugar which is now exported, she would save transportation costs and give employment to a large number of Cubans.[90]

4. *The Diversification of Customers.* While Cuba imports from about forty different nations, most of her sales are made to the United States and England. Dr. Luis Machado has recently stated that Cuba should seek more diversified markets.[91]

In order to diversify markets, the negotiations of commercial treaties granting reciprocal tariff privileges is advocated. Apart from the reciprocity agreement of 1902 with the United States, the only example so far of such an agreement is the treaty of November 5, 1927 between Cuba and Spain. This treaty provides for the free admission of mineral waters and certain wines from Spain into Cuba. In return Spain agrees to grant certain privileges to Cuban tobacco and sugar.[92] The negotiation of reciprocity treaties granting exclusive concessions to foreign countries, however, is limited by the existence of the reciprocity treaty of 1902 with the United States.[93]

86. *La Agonía Antillana,* p. 184. Cf. also his chapter on "El peligro negro."

87. Guerra y Sánchez, cited, p. 138.

87a. In April 1929 a large number of producers in Cuba organized a Foreign Sales Syndicate for the purpose of selling 850,000 tons of Cuba's present sugar crop to countries outside the United States. Each company promises to make no sales outside of the United States except through the syndicate. Apparently this pool is an attempt by private means to secure for Cuban producers the benefits of the reciprocity treaty. *Facts About Sugar,* cited, April 13, 1929, p. 341; April 20, 1929, p. 365.

88. This plan is set forth by Dr. Mario Díaz Cruz, in the *Boletín Oficial de la Cámara de Comercio de la República de Cuba,* March 1929, cited.

89. This is the plan of a Czechoslovak expert, L. W. S. Zychlinski, published in *Excelsior-País,* April 2, 1929.

90. The plan of Sr. Laffite, *Diario de la Marina,* April 25, 1929. Cf. also "Direct Process Sugar," *The Review,* Bank of America, April 1929.

91. Cf. "El Plan Hoover," *Heraldo de Cuba,* April 4, 1929.

92. For the treaty cf. *Boletín Oficial de la Cámara de Comercio de la República de Cuba,* February 1928.

93. *Effects of Cuban Reciprocity Treaty,* cited, p. 21. Cuba now exempts from the most-favored-nation clause in her commercial treaties the concessions made to the United States. Cf. Article 4, Treaty of November 5, 1927 with Spain. Article 28 of the Treaty of December 29, 1924 with Italy reserves concessions accorded by Cuba to the "products of other American States."

If Cuba wishes therefore to enter fully upon a policy of tariff bargaining, she will apparently be obliged to terminate this agreement with the United States.[94]

5. *The Diversification of Agriculture.* Supporters of this plan believe that Cuba, instead of attempting to expand her foreign markets, should build up a domestic market at home. It is pointed out that Cuba imports a large proportion of her food which might be grown in the island. Moreover, the island could support local industries provided the purchasing power of the Cuban people—already 3,500,000 in number—could be raised.[95] In order to bring about this form of diversification, an improved system of transport and a general reorganization of the agricultural life of the country may be necessary.[96] The government has taken several steps toward diversification. The first is the construction of the Central Highway, which will link up one end of Cuba with the other, and thus make possible the evacuation of agricultural produce. The government is encouraging technical education. In October 1927 it enacted a tariff which extends protection to certain industries and lowers the duty on certain raw materials.

6. *Increased Consumption of Sugar.* Before 1914 the world consumption of sugar increased about three per cent annually. But at present the world increase is estimated to be about 4½ per cent, which may gradually absorb the present surplus.[97] Moreover, while the United States consumes 112 pounds of sugar per capita,[98] there are thirty-six nations in the world who consume less than fifty-five pounds per capita, and if their consumption could be increased, the world sugar industry would be immediately benefited.[99] One more spoonful of sugar at each meal at the American table would increase sugar consumption in the United States by 1,500,000 tons.[100]

7. *Agrarian Reform.* The last group of proposals is concerned with the social effects of the sugar industry and the growing predominance of American capital. In 1909 the Arteaga bill forbidding the purchase of real estate by foreigners was defeated in the House by a vote of 49 to 11.[101] The prohibition of new sugar *centrales* and of imported labor has been proposed.[102] The Lombard bill, introduced into the legislature following the World War, provided that each concern should employ at least 75 per cent Cuban labor.[103] Finally the development of a class of small, independent farmers has been advocated. This would not necessarily mean the suppression of the sugar industry, but rather the development of cooperative *centrales.* It is proposed that Cuban farmers produce sugar cane upon their own lands, purchased if necessary by means of government loans. They should take this sugar cane to a *central* jointly owned by a number of such farmers organized into a cooperative society. The government might mark out the island into a series of zones—which in fact already informally exist in wide areas—and in each zone a cooperative *central* might be given the monopoly of the sugar cane. By this means disastrous competition might be averted.[104]

CONCLUSION

Thus Cuba finds itself virtually dependent for its existence upon a single crop, which is marketed largely in the United States. Cuba feels that its economic existence depends to a large extent upon the height of the American tariff. The situation is complicated by the fact that about two-thirds of the sugar production in Cuba is controlled by foreigners; and Cubans fear that if over-production continues, the Cuban producers, who have more difficulty in marketing their sugar than do Americans, will go

94. This treaty may be terminated by giving notice of one year (Article XI).

95. Cf. the article by Dr. Ramiro Guerra y Sánchez, *Diario de la Marina,* April 19, 1929.

96. Cf. p. 117.

97. League of Nations Sugar Committee estimate, *Journal de Genève,* April 10, 1929.

98. This is exceeded by 118 for Australia and 113 for New Zealand.

99. Cf. Luis Machado, "El Plan Hoover," *Heraldo de Cuba,* April 4, 1929.

100. Statement of Mr. Earl D. Babst, *Excelsior-Pais,* April 2, 1929.

101. Chapman, cited, p. 621. A bill to the same effect was introduced in January 1929. *El Pais,* January 30, 1929. For the Porto Rico restriction, cf. "The Problem of Porto Rico," cited, p. 455.

102. Ramiro Guerra y Sánchez, cited, p, 129, 138.

103. Jenks, cited, p. 274.

104. This system already exists in parts of Africa as far as the ginning of cotton is concerned, and it has been proposed in regard to the extraction of oil from palm kernels. Cf. Buell, *Native Problem in Africa,* Vol. I, p. 252, 621, 859.

bankrupt, with the result that the entire control of the sugar industry will pass to more efficient foreigners. The sugar industry has come to rely upon imported negro labor, which has depressed the general wage level in Cuba and the general purchasing power of the people. The mass of the country population live an impoverished and almost feudal existence, relying upon food imported from abroad.

Many Cubans feel that an increase in the sugar duty by the United States will simply intensify the present suffering of the Cuban people and the general business depression. On the other hand, the view has been expressed that in the long run the real solution of Cuba's difficulties lies in diversification of agriculture and agrarian reform, and that an increased tariff by the United States will force this change. In reply it might be said that Cuba is already working for diversification and that a higher tariff would simply increase present difficulties.

APPENDIX

SUGAR PRODUCTION IN THE UNITED STATES AND ITS POSSESSIONS AND CUBA

(Long tons [2,240 lbs.], raw value)

Year	Domestic Beet*	Domestic Cane	Porto Rico	Hawaii	Philippines	Cuba	Virgin Islands	World Total
1920-21	969,419	150,996	438,494	504,073	255,843	3,936,040	4,500	16,652,775
1921-22	911,190	289,669	362,442	502,194	338,160	3,996,387	5,000	17,649,687
1922-23	615,936	263,478	338,456	479,463	263,437	3,602,910	1,739	18,359,484
1923-24	787,217	144,664	399,975	626,279	372,332	4,066,642	2,332	20,096,012
1924-25	974,185	79,002	589,760	692,804	581,064	5,125,970	7,200	23,687,379
1925-26	804,439	124,447	541,485	705,350	436,705	4,884,658	5,664	24,614,152
1926-27	801,246	42,112	562,679	724,403	584,238	4,508,521	7,077	23,733,172
1927-28	965,241	63,207	670,881	807,180	622,704	4,011,717	10,562	25,331,273
1928-29	925,000	145,000	620,000	830,000	637,000	4,900,000	7,500	26,709,600

*Chiefly refined, all others raw.
Weekly Statistical Sugar Trade Journal (Willett & Gray), January 10, 1929, p. 23.

ERRATA
(Tariff and American Foreign Trade)

p. 128 2nd entry (Cement, etc.), Present rate—Free.

3rd entry (Non-vitrified crockery, etc.), Present rate—45%.

p. 130 Schedule 5, 1st entry (Cane sugar), eliminate "General increase +" in first line.